



WOODS & COMPANY
Chartered Accountants

Affiliated With
Dearden Farrow International

HYATT FINANCIAL CORPORATION LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED OCTOBER 31, 1985

We have examined the balance sheet of Hyatt Financial Corporation Ltd. at October 31, 1985 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as considered necessary by the ordinary course.

In our opinion, these financial statements present fairly the financial position of the company as at October 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 28, 1986
Edmonton, Alberta

Woods & Company
CHARTERED ACCOUNTANTS



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Hyatt Financial Corporation Ltd. as at October 31, 1985 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at October 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 28, 1986
Edmonton, Alberta

Woods & Company

CHARTERED ACCOUNTANTS

HYATT FINANCIAL CORPORATION LTD.

STATEMENT OF LOSS AND DEFICIT

FOR THE YEAR ENDED OCTOBER 31, 1985

	1985 \$	1984 \$
REVENUE		
Interest	56,201	103,923
Rentals	613	-
	<u>56,814</u>	<u>103,923</u>
EXPENSES		
Administration and management fees	36,000	31,152
Professional fees	22,471	52,470
Office	7,230	5,297
Travel	6,264	7,189
Wages and benefits	5,917	18,494
Telephone and utilities	4,761	3,613
Occupancy	4,341	6,781
Property maintenance	1,520	-
Advertising and promotion	1,516	5,993
Interest and bank charges	1,037	930
Insurance	921	550
Interest on long-term debt	-	2,518
	<u>91,978</u>	<u>134,987</u>
OTHER EXPENSES		
Bad debts	28,179	68,762
Depreciation and amortization	2,665	1,973
	<u>122,822</u>	<u>205,722</u>
NET LOSS FOR THE YEAR	66,008	101,799
DEFICIT - BEGINNING OF YEAR	<u>238,749</u>	<u>136,950</u>
DEFICIT - END OF YEAR	<u><u>304,757</u></u>	<u><u>238,749</u></u>

HYATT FINANCIAL CORPORATION LTD.

BALANCE SHEET AS AT OCTOBER 31, 1985


	1985 \$	1984 \$
ASSETS		
CURRENT		
Cash and term deposits	56,174	164,499
Accounts receivable	-	3,667
Interest receivable	8,062	8,065
Share subscriptions receivable	-	268
Mortgage portfolio	179,913	275,140
Prepaid expenses	540	540
Notes receivable	<u>15,063</u>	<u>7,793</u>
	<u>259,752</u>	<u>459,972</u>
INCOME PRODUCING PROPERTY, less accumulated depreciation of \$429; 1984 - \$Nil	<u>26,310</u>	<u>22,800</u>
EQUIPMENT, less accumulated depreciation of \$1,019; 1984 - \$299	<u>2,881</u>	<u>3,601</u>
DEFERRED EXPENSES, less accumulated amortization of \$1,516 (note 3)	<u>13,647</u>	<u>-</u>
INVESTMENT IN SUBSIDIARIES (note 4)	<u>125,000</u>	<u>-</u>
	<u>427,590</u>	<u>486,373</u>
LIABILITIES		
CURRENT		
Bank loan	-	5,000
Accounts payable and accrued liabilities	<u>7,985</u>	<u>6,450</u>
	<u>7,985</u>	<u>11,450</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5)	724,362	713,672
DEFICIT	<u>(304,757)</u>	<u>(238,749)</u>
	<u>419,605</u>	<u>474,923</u>
	<u>427,590</u>	<u>486,373</u>
<div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div style="width: 30%;"> <div style="border-top: 1px solid black; margin-bottom: 10px; display: flex; justify-content: space-between;"> <div style="width: 80%;"></div> <div>Director</div> </div> <div style="border-top: 1px solid black; margin-bottom: 10px; display: flex; justify-content: space-between;"> <div style="width: 80%;"></div> <div>Director</div> </div> </div> <div style="width: 65%;"></div> </div>		

HYATT FINANCIAL CORPORATION LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED OCTOBER 31, 1985

	1985 \$	1984 \$
SOURCE OF FUNDS		
Issuance of common shares	21,000	-
Proceeds from disposal of income producing property	-	90,825
	<u>21,000</u>	<u>90,825</u>
USE OF FUNDS		
Provided from operations		
Net loss for the year	66,008	101,799
Deduct item which does not require an outlay of funds:		
Depreciation and amortization	2,665	1,973
	<u>63,343</u>	<u>99,826</u>
Increase in income producing property	3,939	-
Repurchase shares	10,310	-
Investment in subsidiary company	125,000	-
Increase in deferred expenses	15,163	-
Acquisition of income producing property	-	22,800
Decrease in long-term debt	-	90,000
Purchase of equipment	-	3,899
Net shortfall of proceeds from issue of share capital	-	1,572
	<u>217,755</u>	<u>218,097</u>
INCREASE (DECREASE) IN FUNDS FOR THE YEAR	(196,755)	(127,272)
FUNDS - BEGINNING OF YEAR	448,522	575,794
FUNDS - END OF YEAR	<u>251,767</u>	<u>448,522</u>



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NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1985

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(a) Mortgage Portfolio -

The company accounts for its mortgage portfolio at the lower of cost and net realizable value. Cost is defined as principal plus accrued interest to the balance sheet date. For financial statement disclosure purposes, the principal amount and the accrued interest are shown separately.

(b) Income Producing Property -

Income producing property is valued at the lower of cost and net realizable value.

Net realizable value is defined as the market value as determined by the company on the date the property is acquired.

The company provides for depreciation of its income producing property using the declining balance basis at a rate of 5%.

(c) Equipment -

Equipment is recorded at cost. The company provides for the depreciation of its office equipment using the declining balance basis at a rate of 20%. Assets are depreciated on a monthly basis in the year of acquisition. No depreciation is taken during the year of disposal.

(d) Dividends -

Dividends are paid in issuance of additional shares, using the weighted average basis, calculated on the number of shares outstanding at the beginning of the month.

(e) Interest Revenue -

Interest revenue is calculated and recognized monthly as earned.

(f) Investment In Subsidiary Company -

Investment in subsidiary company is recorded at cost.

NOTE 2 - CHANGE OF NAME

During the year the shareholders approved a change of the company's name to Hyatt Financial Corporation Ltd. from Hyatt Mortgage Corporation Ltd.

NOTE 3 - DEFERRED EXPENSES

Deferred expenses consist of the costs related to obtaining a listing on the Alberta Stock Exchange. Amortization is provided on a straight-line basis over ten (10) years.

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HYATT FINANCIAL CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1985

NOTE 4 - INVESTMENT IN SUBSIDIARY COMPANIES

During the year a new business plan was approved by the shareholders whereby the company plans to invest in areas other than mortgage investments.

These investments consist of the following:

- (i) The company has invested \$125,000 in 617393 Ontario Ltd. which owns and operates six Magicuts Stores in Woolco Department Stores in Ontario. This investment is in the form of 10% voting redeemable preferred shares, issued by 617393 Ontario Ltd. In addition, these preferred shares are entitled to certain preferential dividends. In consideration of this investment, and for the services provided by Mr. V.J. Murthy the company will receive the following additional benefits:
 - a) 5% of gross sales of the six Magicut Stores in form of management fees
 - b) an assignment of 319 common shares (51% of voting shares) in 617393 Ontario Ltd. This assignment will entitle the company to all the voting privileges and the dividends earned by these common shares
 - c) under these agreements the company is entitled to be repaid these amounts with a guaranteed minimum return of \$100,000, failing which the company could assume the ownership of the shares.
- (ii) The company, through its wholly owned subsidiary, Hyatt Cosmetics Inc. has acquired the rights for Magicuts, for the balance of the Ontario Woolco Stores and, with the exception of Calgary an area development program for a minimum of nine stores in Alberta.

As at the balance sheet date these stores had not yet started operations.

NOTE 5 - SHARE CAPITAL

- (a) The company obtained a listing on the Alberta Stock Exchange.
- (b) During the year the company split its stock 20 to 1:

	1985 \$	1984 \$ (restated)
Authorized - unlimited number of common shares without par value		
Issued -		
Number of common shares	<u>1,570,180</u>	<u>1,541,920</u>
Amount	<u>724,362</u>	<u>713,672</u>

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HYATT FINANCIAL CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1985

NOTE 5 - SHARE CAPITAL (cont'd)

(c) During the year the following changes in share capital occurred:

	1985	1984
	\$	\$
Issues -		
Net cash proceeds from share issue	15,000	(1,572)
Shares issued for legal fees	<u>6,000</u>	<u>-</u>
Total Proceeds	<u>21,000</u>	<u>(1,572)</u>
Repurchases -		
Repurchases of 41,740 shares	<u>10,310</u>	<u>-</u>

(d) The company has outstanding stock options as following:

(i) Ed Kuhn in consideration for consulting services to the corporation has an irrevocable option to purchase shares as follows:

- by September 15, 1986 - 50,000 shares @ 55 cents
- by September 15, 1987 - 50,000 shares @ 55 cents

(ii) Catalyst Capital Corporation Ltd. has an option to acquire 800,000 common shares as follows;

- 55 cents per share if the option is exercised on or before September 30, 1988
- 75 cents per share if the option is exercised after September 30, 1988, but on or before September 30, 1989
- One dollar per share in the event this option is exercised after September 30, 1989, but on or before September 30, 1990.

The option must be exercised on or before September 30, 1990 and can only be exercised if Catalyst Capital Corporation has met certain conditions. Catalyst Capital Corporation is a company incorporated pursuant to the laws of the Province of Ontario. One-half (50%) of the issued common shares of Catalyst Capital Corporation are owned by Hyatt Investment Advisor Ltd., which is a company wholly owned by Mr. V.J. Murthy who is a director and the president of Hyatt Financial Corporation Ltd.

(iii) The company has established a directors and management stock option plan, whereby up to 200,000 shares can be purchased at 55 cents per share. This option expires on September 15, 1990.

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NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1985

NOTE 6 - INCOME TAXES

The Income Tax Act allows mortgage investment corporations, in calculating taxable income, a deduction equal to the amount of taxable dividends paid in the year.

The company has non-capital losses available for income tax purposes in the amount of \$355,418 which may be applied against future taxable income as follows:

	\$
1986	2,561
1987	31,538
1990	156,370
1991	100,124
1992	<u>64,825</u>
	<u>355,418</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

The company paid management fees to Hyatt Investment Advisor Ltd. in the amount of \$36,000 during the year.

NOTE 8 - EARNINGS PER SHARE

Earnings (loss) per share are calculated using the weighted average number of shares outstanding for the year. The 1984 figure is restated to show the effect of the share split.

1985	1984
\$	\$
<u>(.04)</u>	<u>(.07)</u>

NOTE 9 - SUBSEQUENT EVENTS

Subsequent to the year end the following two mortgages were settled as follows

	\$
By Payout - Teske/Banhouse	9,065
By Foreclosure - Lemke	<u>24,587</u>
	<u>33,652</u>

The accounts of the company were adjusted to reflect the actual amounts collected.

